



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

| | | | |
|-------------------------|--------------------|----------------|---|
| Bill # | HB0506 | Title: | Allowing microdistilleries to deliver products directly to agency liquor stores |
| Primary Sponsor: | Moore, David (Doc) | Status: | As Introduced |

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

| | <u>FY 2016 Difference</u> | <u>FY 2017 Difference</u> | <u>FY 2018 Difference</u> | <u>FY 2019 Difference</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditures: | | | | |
| General Fund | \$125,000 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | \$0 | \$0 | \$0 | \$0 |
| Net Impact-General Fund Balance: | <u>(\$125,000)</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

Description of fiscal impact: HB 506 allows a distillery that produces less than 25,000 gallons of product annually to deliver its product directly to an agency liquor store. The Department of Revenue is required to create an electronic reporting system for distilleries to record their deliveries. There will be a one-time cost of \$125,000 in FY 2016.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

- As of January 1, 2016, HB 506 will allow distilleries producing less than 25,000 gallons of product annually to deliver their product directly to an agency liquor store. However, HB 506 instructs the department to pay the current freight rate and the distiller's current quoted price to the distillery beginning July 1, 2018. Therefore there is a 1.5 year lag time between when the distillery can deliver its product and when the distillery begins getting paid for that product (see technical note).
- Because of the timing of this bill, this fiscal note assumes that distilleries will wait until July 1, 2018 (FY 2019) to begin delivering products directly to agency liquor stores.
- In FY 2019, the department is instructed to pay the distilleries delivering product directly to an agency liquor store the freight rate in addition to their current quoted price. Under current law, freight payments go to the contracted company currently delivering the product for the state. HB 506 allocates the portion of

freight payments to the distilleries for product that they deliver. Therefore, this is just a change in the distribution of freight payments and will not have an impact on state revenue.

4. Changes to the department's computer systems including the requirement to create an electronic reporting system for distilleries to record their deliveries results in a one-time cost to the department \$122,500 in FY 2016. In addition, a new return will need to be created for reporting of direct deliveries. This is a one-time cost of \$2,500 in FY 2016.

| | <u>FY 2016 Difference</u> | <u>FY 2017 Difference</u> | <u>FY 2018 Difference</u> | <u>FY 2019 Difference</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <u>Fiscal Impact:</u> | | | | |
| <u>Expenditures:</u> | | | | |
| Operating Expenses | \$125,000 | \$0 | \$0 | \$0 |
| TOTAL Expenditures | \$125,000 | \$0 | \$0 | \$0 |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$125,000 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | \$125,000 | \$0 | \$0 | \$0 |
| <u>Revenues:</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$0 | \$0 |
| TOTAL Revenues | \$0 | \$0 | \$0 | \$0 |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | (\$125,000) | \$0 | \$0 | \$0 |

Technical Notes:

1. Section 16-4-311(3)(c), MCA requires the Department of Revenue to pay the distillery the current freight rate and the distiller's current quoted price per case beginning July 1, 2018. However, the section allowing distilleries to deliver its product directly to an agency liquor store is effective January 1, 2016. This would result in the distillery not getting paid for product they deliver between January 1, 2016 and July 1, 2018.
2. This bill does not specify how soon the distillery must report the deliveries made. The department suggests adding clarification that the reporting needs to take place the day of the delivery so that the Liquor Control Division can properly invoice the agency liquor store.

Sponsor's Initials

Date

Budget Director's Initials

Date